6/10/87 R4105-37

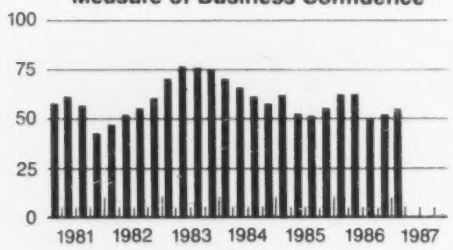
The Conference Board

A Survey of Chief Executives

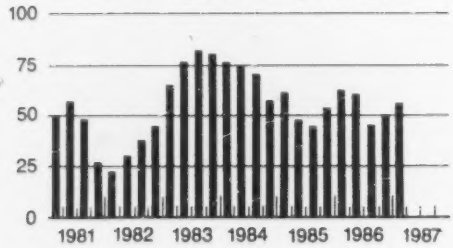
Business Executives' Expectations

A Quarterly Report from The Conference Board **First Quarter 1987**

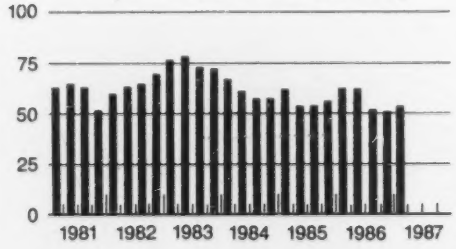
Measure of Business Confidence



Current Economic Conditions



Expectations for the Economy



Business Confidence: A Modest Increase

Executives' sentiments about current economic conditions and the outlook for the second half of the year improved in the first quarter of 1987. The Conference Board's *Measure of Business Confidence* increased to 55—from 51 in the fourth quarter—although it remained well below the level of 61 posted in the first half of 1986. Optimism increased in most manufacturing industries, but declined in several nonmanufacturing industries.

Current Conditions Broadly Better

General improvement in current business conditions accounted for the bulk of the rise in business confidence. The *Current Conditions Index* increased to 56—from 50 in the fourth quarter—as executives in virtually all industries reported improved conditions compared with six months earlier. In several manufacturing industries—notably rubber, publishing and primary metals—the *Current Conditions Index* soared to its highest level in more than a decade. Renewed strength in these industries probably reflects the favorable effects of rising commodity prices, dollar depreciation, and increasing export volume.

Expectations Vary Widely by Industry

For the second half of the year, executives' expectations varied widely across industries, with 36% expecting improved conditions and 21% expecting economic conditions to deteriorate. Executives in 8 out of the 15 manufacturing industries surveyed expected tougher times ahead; expectations worsened in 3 out of 10 nonmanufacturing industries. Overall, the *Business Expectations Index* increased to 54, from 51 in the fourth quarter. The small size of this increase probably reflects growing uncertainty about the future course of monetary policy, inflation, currency fluctuations and the trade deficit. Some executives expressed concern about liability insurance costs, overcapacity, excessive government regulations and foreign competition.

Employment Prospects Mediocre

General ambivalence about the economic outlook is also reflected in respondents' expectations about employment growth in their respective industries. Nearly one-fourth of all executives expect employment to decline by at least 1% in their industry this year; only one-sixth expect an increase of at least 1 percent. Employment prospects for the remainder of the year look weakest in these areas: nonelectrical machinery; rubber; stone, clay and glass; and in the electrical and gas utilities. Best employment prospects are in retail trade, business services, real estate and chemicals.

Executives in several industries expect increasing difficulty finding qualified employees in the months ahead. Typically, these industries require strong technical skills (lumber and furniture and instruments) or strong verbal and keyboard skills (banking). In New England and the Middle Atlantic states especially, executives cited shortages of skilled workers as the biggest problem confronting their industries.

Steven Malin

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Table 1: EXPECTED CHANGE IN OWN-INDUSTRY EMPLOYMENT, 1987 (percent of respondents)

	Increase	No Change (± 1%)	Decrease
All Industries	22%	50%	28%
Manufacturing	17	57	26
Mining and Agriculture	0	67	33
Services	28	44	28

Table 2: PERCENT EXPECTING GREATER DIFFICULTY FINDING QUALIFIED EMPLOYEES IN CURRENT YEAR

	1981	1982	1983	1984	1985	1986	1987
All Industries	26%	13%	8%	21%	22%	21%	19%
Manufacturing	20	9	7	21	18	17	17
Nonmanufacturing	30	16	n.a.	22	24	25	24

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1984				1985				1986				1987
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.
MEASURE OF BUSINESS CONFIDENCE	70	65	61	57	61	52	51	55	61	61	50	51	55
1. Current Economic Conditions vs. 6 Months Ago	76	75	70	57	62	48	45	53	63	61	44	50	56
2. Expectations for Economy, 6 Months Ahead	67	60	57	57	61	53	53	56	62	62	52	51	54
3. Expectations for Own Industry, 6 Months Ahead	67	61	57	58	61	55	54	56	59	60	54	53	56
4. Current Conditions in Own Industry vs. 6 Months Ago	70	67	62	55	57	51	47	53	57	54	47	50	58

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1985		1986				1987	1985		1986				1987
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.
Manufacturing	41	49	55	52	45	50	60	53	55	60	59	52	55	58
Food	43	46	49	50	50	57	60	52	55	55	59	56	63	58
Textiles	40	67	72	72	65	60	59	46	56	54	58	48	58	63
Apparel	36	52	54	40	36	50	58	52	50	61	60	45	54	50
Paper	38	57	57	59	63	69	69	62	59	69	68	59	62	56
Printing, Publishing	50	46	59	48	38	37	57	59	63	63	58	61	62	61
Chemicals	45	47	60	63	55	54	69	59	55	66	66	58	62	69
Rubber	29	43	48	58	44	56	81	48	59	66	67	58	66	50
Lumber, Furniture	40	48	61	60	59	62	67	52	50	56	67	56	62	50
Stone, Clay, Glass	49	57	48	57	57	44	53	51	47	58	55	48	48	53
Primary Metals	39	46	54	48	33	37	67	55	54	57	53	41	46	56
Fabricated Metals	45	50	57	52	40	47	61	55	56	59	55	51	51	56
Nonelectrical Machinery	41	47	50	44	32	41	57	46	53	58	57	44	51	54
Electrical Machinery	31	48	59	56	51	52	63	54	61	65	64	62	57	68
Transportation Equipment	41	42	46	49	43	51	55	57	51	46	56	48	53	50
Instruments	39	52	54	52	47	53	54	45	63	64	55	56	64	58
Mining	38	41	41	24	38	43	69	53	47	54	53	53	48	64
Construction	51	53	42	44	40	29	50	49	45	43	42	54	31	58
Transportation	51	50	50	58	54	55	58	56	54	66	68	61	58	54
Electric, Gas Utilities	51	53	56	48	49	54	49	50	58	55	58	55	53	49
Wholesale Trade	42	47	58	54	44	52	56	52	57	59	58	55	48	55
Retail Trade	45	46	52	54	51	52	54	59	53	56	63	59	48	52
Banking	54	58	63	55	46	47	47	54	58	60	59	51	45	50
Other Finance	76	79	74	76	63	67	73	61	65	65	61	52	60	62
Insurance	63	60	68	68	56	55	61	62	62	64	71	57	58	50
Business Services	50	51	58	62	52	50	51	52	60	55	63	53	55	54

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

The Conference Board

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This report is prepared by Steven Malin, Senior Economist, Economic Analysis Program. For additional information call (212) 759-0900.

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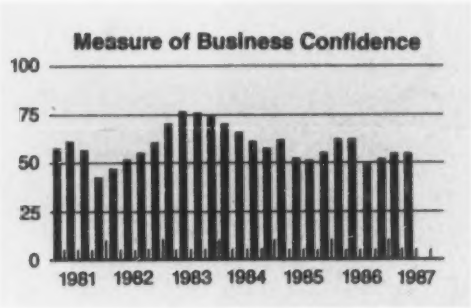
The Conference Board

A Survey of Chief Executives

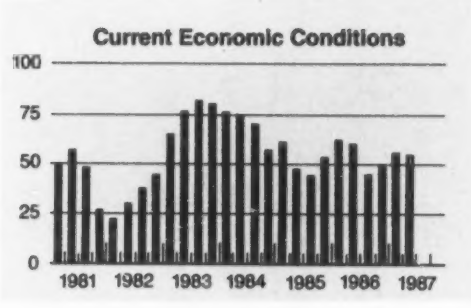
Business Executives' Expectations

A Quarterly Report from The Conference Board **Second Quarter 1987**



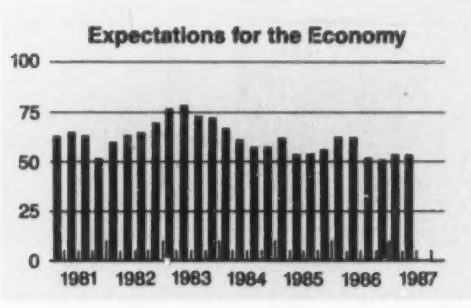
Business Confidence Index: Stuck in Neutral

Despite slightly less optimism about current and expected economic conditions, The Conference Board's *Measure of Business Confidence* remained unchanged at 55 in the second quarter. With the exception of the first and second quarters of 1986, the business confidence index has fluctuated narrowly between 51 and 55 for two years. Stability in the index mirrors the economy's steady but moderate growth, and the business community's expectation of no major changes ahead.



Current Conditions Mildly Weaker

The slight second quarter decline in the *Current Conditions Index*—from 56 to 55—reflects ambivalence in executives' sentiments. Executives in 10 out of 15 manufacturing industries, and in 5 out of 10 nonmanufacturing industries, thought that their industries were less well off this spring than they were last autumn. However, only 17% of respondents felt that conditions in the national economy had deteriorated during the first half of 1987. Although the *Current Conditions Index* for most industries hardly changed, notable declines were posted in apparel, rubber, chemicals, furniture and finance. Executives in the textiles and instruments industries reported moderately improved conditions.



Expectations Holding Steady

The *Business Expectations Index* fell slightly from 54 in the first quarter to 53 in the second. Its steadiness partly reflects the perception that no major changes in economic conditions or policies will occur over the next six months. Led by the chemicals industry, executives in 9 out of 15 manufacturing industries expressed moderately increased optimism about prospects for their own industries in the second half of 1987. In contrast, expectations weakened moderately in the apparel industry and in several interest rate-sensitive industries, notably contract construction, banking and finance.

Executives Favor Freer and Fairer Trade

Concern about the harmful effects of the trade deficit on the U.S. economy dampened overall business confidence. Survey respondents widely endorsed free-trade policies worldwide and a hands-off approach by the federal government to trade matters—except to pressure foreign trading partners to open up their markets fully to U.S. exports. Many executives report that protectionism and unfair trade practices abroad have hurt their businesses. However, fearing retaliation and potentially inflationary consequences, survey respondents almost uniformly rejected the adoption of protectionist measures by the United States. Several executives considered reduction of the federal budget deficit a prerequisite for a stronger trade policy.

For most executives, further depreciation of the dollar is not a high priority. Only 34% said that the dollar's depreciation since 1985 had been helpful to their businesses. Citing the higher cost of imported materials, parts and finished goods, 17% of executives felt that the lower dollar exchange rate was harmful.

Steven Malin

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Table 2: EFFECT OF CHANGES IN TARIFFS, AND TRADE REGULATIONS
(percent of respondents)

	Very Beneficial	Beneficial	Little or None	Harmful	Very Harmful
All Industries	0.9%	12.1	72.7	12.3	2.0
Manufacturing	0.9%	16.6	69.8	10.8	1.8
Primary Metals	0%	39.1	52.2	4.3	4.3
Nonmanufacturing	2.0%	6.8	73.0	14.5	3.7
Retail Trade	0%	14.3	28.6	35.7	21.4
Business Services	0%	5.7	85.7	2.9	5.7

Table 1: EFFECT OF CHANGES IN VALUE OF DOLLAR SINCE 1985
(percent of respondents)

	Very Beneficial	Beneficial	Little or None	Harmful	Very Harmful
All Industries	3.5%	30.6	49.1	15.2	1.6
Manufacturing	4.9%	48.7	33.5	10.1	2.9
Primary Metals	13.0%	56.5	26.1	4.4	0
Nonmanufacturing	6.6%	23.1	50.6	17.6	2.2
Retail Trade	0%	21.4	42.9	35.7	0
Business Services	5.7%	25.7	48.6	20.0	0

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1984			1985				1986				1987	
	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
MEASURE OF BUSINESS CONFIDENCE	65	61	57	61	52	51	55	61	61	50	51	55	55
1. Current Economic Conditions vs. 6 Months Ago	75	70	57	62	48	45	53	63	61	44	50	56	55
2. Expectations for Economy, 6 Months Ahead	60	57	57	61	53	53	56	62	62	52	51	54	53
3. Expectations for Own Industry, 6 Months Ahead	61	57	58	61	55	54	56	59	60	54	53	56	56
4. Current Conditions in Own Industry vs. 6 Months Ago	67	62	55	57	51	47	53	57	54	47	50	58	57

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1985	1986				1987		1985	1986				1987	
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
Manufacturing	49	55	52	45	50	60	59	55	60	59	52	55	58	56
Food	46	49	50	50	57	60	58	55	55	59	56	63	58	64
Textiles	67	72	72	65	00	59	69	56	54	58	48	58	63	47
Apparel	52	54	40	36	50	58	63	50	61	60	45	54	50	56
Paper	57	57	59	63	69	69	55	59	69	68	59	62	56	59
Printing, Publishing	46	59	48	38	37	57	54	63	63	58	61	62	61	55
Chemicals	47	60	63	55	54	69	63	55	66	66	58	62	69	58
Rubber	43	48	58	44	56	81	64	59	66	67	58	66	50	50
Lumber, Furniture	48	61	60	59	62	67	54	50	56	67	56	62	50	54
Stone, Clay, Glass	57	48	57	57	44	53	58	47	58	55	48	48	53	58
Primary Metals	46	54	48	33	37	67	65	54	57	53	41	46	56	52
Fabricated Metals	50	57	52	40	47	61	54	56	59	55	51	51	56	53
Nonelectrical Machinery	47	50	44	32	41	57	58	53	58	57	44	51	54	57
Electrical Machinery	48	59	56	51	52	63	60	61	65	64	62	57	68	56
Transportation Equipment	42	46	49	43	51	55	52	51	46	56	48	53	50	52
Instruments	52	54	52	47	53	54	63	63	64	55	56	64	58	73
Mining	41	41	24	38	43	69	67	47	54	53	53	48	64	61
Construction	53	42	44	40	29	50	48	45	43	42	54	31	58	46
Transportation	50	50	58	54	55	58	52	54	66	68	61	58	54	52
Electric, Gas Utilities	53	56	48	49	54	49	57	58	55	58	55	53	49	57
Wholesale Trade	47	58	54	44	52	56	59	57	59	58	55	48	55	55
Retail Trade	46	52	54	51	52	54	52	53	56	63	59	48	52	54
Banking	58	63	55	46	47	47	49	58	60	59	51	45	50	49
Other Finance	79	74	76	63	67	73	50	65	65	61	52	60	62	52
Insurance	60	68	68	56	55	61	55	62	64	71	57	58	50	52
Business Services	51	58	62	52	50	51	61	60	55	63	53	55	54	64

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence,** thus can range from 0 to 100.

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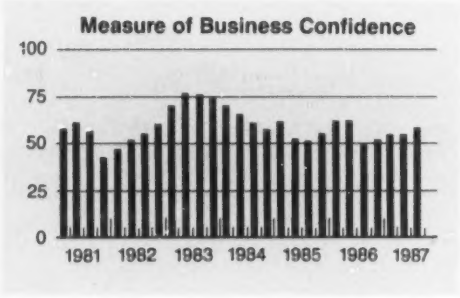
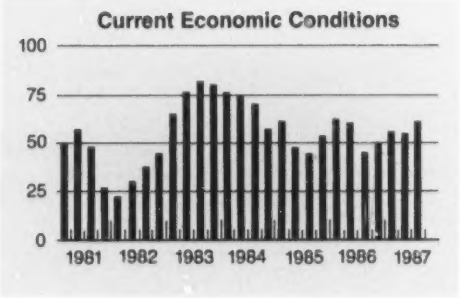
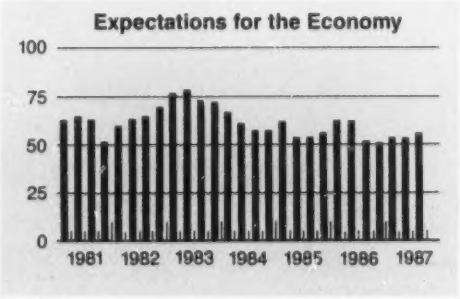
Business Executives' Expectations

A Quarterly Report from The Conference Board **Third Quarter 1987**







Moderate Increase in Business Confidence

The view of executives about current economic conditions and the outlook for the next six months improved moderately in the third quarter. The Conference Board's *Measure of Business Confidence* increased to 59, its highest level in a year and a half, from 55 in the first and second quarters. The renewed confidence reflected strengthening of the domestic economy and the expectation that a rise in U.S. exports and a decrease in foreign competitiveness in U.S. markets would boost profits and permit greater price flexibility.

Current Conditions Much Improved

Most of the increase in business executives' confidence derives from increased optimism concerning current economic conditions. The *Current Conditions Index* rose to 62 in the third quarter—from 55 in the second quarter and from 44 a year earlier—as 52% of survey respondents felt that economic conditions had improved since the beginning of 1987; only 5% of executives reported deterioration. More than half of the executives also believed that conditions had improved in their own industries, with substantial gains reported by paper, construction and wholesale trade companies. Executives in the stone, clay and glass, rubber, textiles and food industries reported setbacks.

Expectations Improved but Clouded by Worries

For the six months ahead, most executives expect moderate improvement in U.S. economic conditions. Overall, the *Business Expectations Index* increased to 56 in the third quarter from 53 in the second. A majority of executives in all 10 *nonmanufacturing* industries tracked by the survey look forward to better times, but in *manufacturing* expectations improved in only 8 out of 15 industries. The ambivalence of manufacturing executives reflects general optimism about the overall economy and expected increases in export orders. But this good news is partially tainted by fears about the future course of domestic monetary and fiscal policies, high levels of private- and public-sector indebtedness, and uncertainty about the outlook for inflation and interest rates.

Concern Over Inflation

For the first time in five years, most executives expect accelerating, rather than decelerating, U.S. inflation rates to strongly influence their companies' pricing strategy in 1988. Rising energy and natural resource prices, softening import competition and generally strong domestic and international economic conditions were also cited by many executives as putting upward pressures on their companies' prices. Many survey respondents felt that shortfalls in productive capacity—within their own industries and elsewhere—will result in inflationary bottlenecks. Ironically, many executives also believe that accelerating inflation will facilitate price increases that will boost their companies' profitability in the months ahead.

Steven Malin

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Table 1: EXPECTED PRICE CHANGE, 1987 vs. 1986 IN PRINCIPAL LINE OF BUSINESS
(percent of respondents)

	Larger Increase	Same Increase	Smaller Increase	No Change	Decrease
All Industries	20.2%	24.8	20.5	24.9	9.6
Manufacturing	20.5%	28.1	19.2	23.7	8.5
Durables	16.6%	26.9	16.1	31.4	9.0
Nondurables	26.5%	32.4	19.7	14.5	6.8
Services	18.1%	20.8	22.0	28.4	10.7

Table 2: EXPECTED PRICE CHANGE, 1988 vs. 1987 IN PRINCIPAL LINE OF BUSINESS
(percent of respondents)

	Larger Increase	Same Increase	Smaller Increase	No Change	Decrease
All Industries	19.2%	26.9	26.7	21.1	6.1
Manufacturing	19.4%	28.1	28.1	19.9	4.5
Durables	18.4%	24.7	28.7	21.9	6.3
Nondurables	19.5%	33.3	27.4	17.1	1.7
Services	17.7%	25.5	25.2	24.9	6.8

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1984		1985				1986				1987		
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.
MEASURE OF BUSINESS CONFIDENCE	61	57	61	52	51	55	61	61	50	51	55	55	59
1. Current Economic Conditions vs. 6 Months Ago	70	57	62	48	45	53	63	61	44	50	56	55	62
2. Expectations for Economy, 6 Months Ahead	57	57	61	53	53	56	62	62	52	51	54	53	56
3. Expectations for Own Industry, 6 Months Ahead	57	58	61	55	54	56	59	60	54	53	56	56	58
4. Current Conditions in Own Industry vs. 6 Months Ago	62	55	57	51	47	53	57	54	47	50	58	57	61

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1986				1987			1986				1987		
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.
Manufacturing	55	52	45	50	60	59	61	60	59	52	55	58	56	56
Food	49	50	50	57	60	58	48	55	59	56	63	58	64	62
Textiles	72	72	65	60	59	69	54	54	58	48	58	63	47	50
Apparel	54	40	36	50	58	63	75	61	60	45	54	50	56	54
Paper	57	59	63	69	69	55	79	69	68	59	62	56	59	60
Printing, Publishing	59	48	38	37	57	54	58	63	58	61	62	61	55	64
Chemicals	60	63	55	54	69	63	63	66	66	58	62	69	58	60
Rubber	48	58	44	56	81	64	50	66	67	58	66	50	50	44
Lumber, Furniture	61	60	59	62	67	54	65	56	67	56	62	50	54	55
Stone, Clay, Glass	48	57	57	44	53	58	41	58	55	48	48	53	58	48
Primary Metals	54	48	33	37	67	65	61	57	53	41	46	56	52	50
Fabricated Metals	57	52	40	47	61	54	62	59	55	51	51	56	53	53
Nonelectrical Machinery	50	44	32	41	57	58	63	58	57	44	51	54	57	60
Electrical Machinery	59	56	51	52	63	60	65	65	64	62	57	68	56	58
Transportation Equipment	46	49	43	51	55	52	62	46	56	48	53	50	52	53
Instruments	54	52	47	53	54	63	56	64	55	56	64	58	73	47
Mining	41	24	38	43	69	67	75	54	53	53	48	64	61	59
Construction	42	44	40	29	50	48	64	43	42	54	31	58	46	59
Transportation	50	58	54	55	58	52	60	66	68	61	58	54	52	65
Electric, Gas Utilities	56	48	49	54	49	57	63	55	58	55	53	49	57	61
Wholesale Trade	58	54	44	52	56	59	70	59	58	55	48	55	55	62
Retail Trade	52	54	51	52	54	52	53	56	63	59	48	52	54	61
Banking	63	55	46	47	47	49	50	60	59	51	45	50	49	57
Other Finance	74	76	63	67	73	50	51	65	61	52	60	62	52	53
Insurance	68	68	56	55	61	55	57	64	71	57	58	50	52	54
Business Services	58	62	52	50	51	61	60	55	63	53	55	54	64	65

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

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